AGROPUR
Dairy Cooperative

Management Report

FOR THE 52-WEEK PERIOD ENDED OCTOBER 31, 2020

Dear Members,

Here are the financial highlights of fiscal 2020:

- Unprecedented cheese price volatility in the U.S.;
- Extraordinary crisis management situation (COVID-19);
- Retail sales volume up but not enough to make up for the decline in the HRI segment (hotels, restaurants, institutions), which was hard hit by lockdowns;
- Increased volume at the Lake Norden plant (first full year);
- Sales up $458.0 million or 6.3% to $7.7 billion;
- Earnings from operations up $93.7 million or 25.6% year over year to a record $459.2 million;
- Patronage dividends of $43.5 million declared, payable entirely in Class A investment shares;
- Net earnings of $38.8 million;
- Cash flows made it possible to repay $305.9 million in long-term debt.

In fiscal 2020 implementation of Agropur's transformation plan began. We started the year with clear objectives, which included improving the Cooperative's profitability and reducing its debt level. Accordingly, the Cooperative decided to streamline its operations and focus all its efforts on its most promising lines of business. The announcements of December 3 and 17 relating to the sale of the Grand Rapids facility in the United States and the sale of our yogurt sector in Canada are consistent with this approach. The considerations received will enable the Cooperative to reduce debt and reinvest in strategic businesses. With the same objectives in mind, expense management was reviewed, and costs were reduced in all departments, which directly contributed to improving the profitability of our activities.

All of these initiatives were carried out under extraordinary and unpredictable circumstances. At the beginning of the pandemic, the Cooperative set up a crisis unit to implement measures to prevent an outbreak at its facilities and protect its employees. It made sure our business continuity plan was up to date and maintained constant communication with our employees and business partners. At the same time, markets were highly volatile in 2020. In the U.S. the cheese price dipped to its lowest point since we began operating there, falling to US$1.00 lb, and then rose to a record US$3.00/lb. Largely because of the fluctuations of U.S. markets, the Cooperative's financial results fluctuated widely during 2020. In the first half of the year, the period ended May 2, earnings from operations were down 28.4% compared with the same period of the previous year. The first half saw two consecutive price drops in the U.S. and the impact of the emerging pandemic. However, as a result of the recovery in cheese prices and the cost-reduction efforts, we closed the year with a 25.6% increase over the previous year.

It is in the light of this challenging environment that we present the Cooperative's 2020 financial results.

Financial overview

The Cooperative's sales totalled $7.7 billion in fiscal 2020, a year-over-year increase of $458.0 million or 6.3%. It should be noted that the 2019 results included the sales of the St. Paul plant, which was sold in October 2019. On a comparable basis, the Cooperative's consolidated sales increased by 8.8%. This increase is due mainly to higher cheese prices in the U.S., increased sale volumes generated by the Lake Norden plant, and the translation of U.S. sales into Canadian dollars. Our consolidated sales were negatively impacted by government restrictions to control the pandemic. Lower sales to the HRI sector (hotels, restaurants and institutions) were only partially offset by higher retail sales.

Earnings from operations (or EBITDA) reached a record $459.2 million in 2020, a year-over-year increase of $93.7 million or 25.6%. The growth was driven by our operations on both sides of the border. In the U.S., the factors in the EBITDA increase included improved margins on whey products and the contribution of the new Lake Norden plant. These positive factors were partially offset by lower butter prices and lower sales volumes to HRI customers. In Canada, earnings from operations increased as a result of the improved profitability of products sold and the collective effort to reduce expenses. Additional costs related to the pandemic were partially offset by savings in areas such as travel expenses.

The depreciation and amortization expense increased by $27.1 million to $243.9 million, essentially because of depreciation of the Lake Norden plant. Restructuring, integration and other non-recurring costs decreased by $6.1 million to $35.7 million. They mainly include restructuring costs for our Canadian operations. Financial expenses were $79.3 million in 2020, an $11.5 million increase due in large part to higher interest rates. In addition, $5.8 million was recorded under gain on disposal and other in 2020, reflecting disposal of a portion of an interest in an associated company and two milk transportation routes. In 2019 a gain on disposal was recorded mainly in connection with the sale of the St. Paul plant. Lastly, our subsidiaries recorded income tax expenses in the amount of $36.4 million in 2020.

Earnings before patronage dividends and the Cooperative's income taxes therefore totalled $69.6 million in 2020.

In light of the results, the Board of Directors approved patronage dividends of $43.5 million, to be paid entirely in Class A investment shares in order to help reduce the Cooperative's indebtedness.

Cash flows provided by operating activities reflect the Cooperative's financial performance in 2020. Operating activities provided $418.1 million and non-cash items $77.0 million. The increase mainly explained by an increase in accounts payable, including milk supply payable, partially offset by an increase in accounts receivable (essentially due to higher cheese prices in the U.S.).

With respect to financing activities, $305.9 million was used for debt repayment and $87.8 million for interest payment and lease obligation. It should be noted, that we deferred dividend payments on first preferred shares during the year, as allowed under our agreement with the shareholders.

Capital expenditures were $136.0 million in 2020, $155.4 million less than in 2019. The reason for the decrease is the particularly high level of capital expenditures in 2019 due to completion of the Lake Norden plant project. Proceeds from disposal in the amount of $18.4 million were recorded in connection with the disposal of a portion of our interest in an associated company and two milk transportation routes.

As we look back on the year just ended, we have reason to be proud of what the Cooperative has accomplished. Despite the pandemic, Agropur succeeded in protecting its employees and providing an essential public service. The measures taken to improve the Cooperative's profitability and strengthen its balance sheet are already showing results. We must continue our efforts along the same lines in order to ensure the Cooperative's sustainability. As a matter of fact, we began 2021 with two announcements that will lead to the sale of our plant in Grand Rapids, Michigan, as well as our Aliments Ultima subsidiary in Quebec. These transactions will enable us to further reduce our debt and streamline our business model. In conclusion, we thank all of the Cooperative's partners, members and employees. All demonstrated agility and adaptability during the year, qualities that will stand us in good stead in the coming years as we continue Agropur's transformation.

Émile Cordeau, Chief Executive Officer
Stéphane Tremblay, Senior Vice-President and Chief Financial Officer

CONSOLIDATED EARNINGS

(IN THOUSANDS OF CANADIAN DOLLARS)	**2020**	2019
Sales	**7,713,269**	7,255,235
Operating expenses excluding depreciation and amortization	**7,254,107**	6,889,794
Earnings before interest, income taxes, depreciation, amortization, restructuring costs, integration and other non-recurring costs (earnings from operations)	**459,162**	365,441
Depreciation and amortization	**243,890**	216,832
Restructuring costs, integration and other non-recurring costs	**35,731**	41,839
Operating earnings	**179,541**	106,770
Net financial expenses	**79,345**	67,870
Gain on disposal of assets and other	**(5,804)**	(46,957)
Income taxes of subsidiaries	**36,446**	38,639
Earnings before patronage dividends and the Cooperative's income taxes	**69,554**	47,218
Patronage dividends	**43,471**	30,009
Cooperative's income taxes	**(12,684)**	(21,849)
Net earnings	**38,767**	39,058

CONSOLIDATED CASH FLOWS

(IN THOUSANDS OF CANADIAN DOLLARS)	**2020**	2019
Operating activities		
Operations	**418,101**	321,836
Patronage dividends paid	**-**	(16,150)
Change in non-cash items	**76,984**	34,531
	495,085	340,217
Financing and share capital activities		
Long-term debt	**(305,890)**	(7,978)
Interest and lease obligations	**(87,842)**	(66,920)
Dividends on first preferred shares	**-**	(62,780)
Redemptions, net of issuance of members' shares	**(427)**	(40,428)
	(394,159)	(178,106)
Investing activities		
Property, plant and equipment and intangible assets	**(136,043)**	(291,417)
Proceeds from disposals and other	**18,355**	141,292
	(117,688)	(150,125)
Effect of exchange rate fluctuations on cash position	**(3,299)**	(207)
Net change in cash position	**(20,061)**	11,779

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF CANADIAN DOLLARS)	**October 31, 2020**	November 2, 2019
Assets		
Current assets	**1,341,358**	1,252,361
Property, plant and equipment and other long-term assets	**3,399,650**	3,372,928
	4,741,008	4,625,289
Liabilities		
Current liabilities	**1,020,633**	863,565
Long-term debt	**1,103,287**	1,393,073
Other long-term liabilities	**288,727**	119,292
	2,412,647	2,375,930
Equity		
Members' capital	**837,364**	794,320
First preferred shares	**770,000**	770,000
Reserve and others	**720,997**	685,039
	2,328,361	2,249,359
	4,741,008	4,625,289